

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Compliance Examination

(In accordance with the Single Audit Act
and OMB Circular A-133)

Year ended June 30, 2005

Performed as Special Assistant
Auditors for the Auditor General,
State of Illinois

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

(In accordance with the Single Audit Act
and OMB Circular A-133)

Year ended June 30, 2005

Table of Contents

	Page
Agency Officials	1
Management Assertion Letter	2
Compliance Report	
Summary	3
Auditors' Reports:	
Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes	5
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	8
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, and on the Schedule of Expenditures of Federal Awards	10
Schedule of Findings and Questioned Costs:	
Summary of Auditors' Results	12
Findings and Questioned Costs (Federal Compliance)	14
Findings (State Compliance)	24
Prior Findings Not Repeated (Federal Compliance)	35
Prior Findings Not Repeated (State Compliance)	35
Financial Statement Report:	
The Authority's financial statement report for the year ending June 30, 2005, which includes the report of independent auditors, management's discussion and analysis, basic financial statements, and supplementary information, has been issued separately.	

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

(In accordance with the Single Audit Act
and OMB Circular A-133)

Year ended June 30, 2005

Table of Contents

	Page
Supplementary Information for State Compliance Purposes:	
Summary	36
Fiscal Schedules and Analysis:	
Schedule of Expenditures of Federal Awards	37
Notes to Schedule of Expenditures of Federal Awards	38
Comparative Schedule of Cash Receipts	39
Schedule of Changes in State Property	44
Furniture, Equipment, and Leasehold Improvements	45
Analysis of Significant Account Balances	46
Analysis of Significant Variations in Revenue and Significant Variations in Expenses	48
Analysis of Administrative Costs	50
Description of Cash Accounts	51
Description of Investments	52
Affordable Housing Trust Fund	52
Analysis of Operations:	
Authority Functions and Planning Program	53
Average Number of Employees (Unaudited)	56
Illinois FIRST Program (Unaudited)	56
Emergency Purchases	56
Service Efforts and Accomplishments (Unaudited)	56
Production/Preservation Activity in Terms of Housing Units (Unaudited)	57
Production of Low Income Units by Program (Unaudited)	58
Production/Preservation Activity by Region (Unaudited)	59
Summary Production Data (Unaudited)	60
Schedule of Federal and Nonfederal Expenditures	61

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Agency Officials

Executive Director
General Counsel
Chief Financial Officer
Controller

Kelly King Dibble
Mary R. Kenney
Robert W. Kugel
James J. Kregor

Agency Officials are located at:

401 North Michigan Avenue, Suite 900
Chicago, Illinois 60611



**ILLINOIS
HOUSING
DEVELOPMENT
AUTHORITY**

401 N. Michigan Ave.
Chicago, IL 60611

312.836.5200 MAIN
312.836.5222 TDD

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Management Assertion Letter

KPMG LLP
303 East Wacker Drive
Chicago, Illinois 60601

October 28, 2005

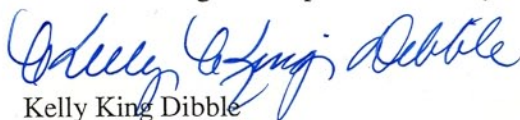
Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grants that could have a material effect on the operations of the Illinois Housing Development Authority (Authority). We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Authority's compliance with the following assertions during the year ended June 30, 2005. Based on this evaluation, we assert that during the year ended June 30, 2005, the Authority has materially complied with the assertions below.

- A. The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Very truly yours,

Illinois Housing Development Authority


Kelly King Dibble
Executive Director


Robert W. Kugel
Chief Financial Officer


James J. Kregor
Controller

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Compliance Report Summary

Year ended June 30, 2005

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Auditors' Reports

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant nonstandard language.

Summary of Findings

Number of	This report	Prior report
Findings	10	10
Repeated findings	8	3
Prior recommendations implemented or not repeated	2	—

Details of findings are presented in a separately tabbed report section.

Schedule of Findings and Questioned Costs

Findings and Questioned Costs (Federal Compliance)

Item No.	Page	Description
05-01	14	Inadequate Monitoring of Subrecipients Receiving Federal Awards
05-02	17	Inadequate Review of the Maximum Per Unit Subsidy Calculation
05-03	18	Inaccurate Calculation and Reporting of Match Expenditures
05-04	20	Inadequate Cash Management Procedures
05-05	22	Failure to Obtain Suspension and Debarment Certifications for Subrecipients

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Compliance Report Summary

Year ended June 30, 2005

Findings (State Compliance)

Item No.	Page	Description
05-06	24	Inadequate Process for Timely Preparation of Financial Information and Statements
05-07	26	Documentation of Internal Control Structure
05-08	28	Accounting for Program Loans Receivable
05-09	30	Loan Loss Reserve Calculation Does Not Consider all Relevant Factors
05-10	34	Time Sheets Not Maintained in Compliance With the State Officials and Employees Ethics Act

Prior Findings Not Repeated (Federal Compliance)

Item No.	Page	Description
05-11	35	Improper Exclusion of State Recipient Payments from Schedule of Expenditures of Federal Awards

Prior Findings Not Repeated (State Compliance)

Item No.	Page	Description
05-12	35	System Reconciliation Procedures

Exit Conference

The findings and recommendations in this report were discussed with Authority personnel at an exit conference on March 21, 2006. Attending were Kelly King Dibble, Robert Kugel, Jim Kregor, Ronald Gajos, Bill Kazan, Steve Uitto, Robin Simon, Diane Smith, Neil O'Callaghan, Laura Hassan and Rolando Dinglasan from the Illinois Housing Development Authority; Paul Usherwood from the Office of the Auditor General; and Jackie Dippel and Julie Barrientos from KPMG LLP. The responses to the recommendations were provided by Jim Kregor, Controller, via e-mail on April 3, 2006.



KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

**Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and
on Supplementary Information for State Compliance Purposes**

Honorable William G. Holland
Auditor General
State of Illinois:

As Special Assistant Auditors for the Auditor General, we have examined the Illinois Housing Development Authority's, a component unit of the State of Illinois, compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2005. The management of the Illinois Housing Development Authority (the Authority) is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

- A. The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.



In our opinion, the Illinois Housing Development Authority complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2005. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings and questioned costs as finding 05-10.

As required by the Audit Guide, immaterial findings related to instances of noncompliance excluded from this report have been reported in a separate letter to your office dated October 28, 2005.

Internal Control

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Authority's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations caused by error or fraud that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings and questioned costs as findings 05-06, 05-07, 05-08, and 05-09.

As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office dated October 28, 2005.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Authority as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 28, 2005. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2005, taken as a whole.



We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Authority's basic financial statements for the years ended June 30, 2004 and June 30, 2003. In our reports dated October 28, 2004 and October 28, 2003, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, and each major fund. In our opinion, the 2004 and 2003 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited," is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2004 and June 30, 2003, taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and Authority management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Chicago, Illinois
October 28, 2005



KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Honorable William G. Holland
Auditor General
State of Illinois:

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance findings in the accompanying Schedule of Findings and Questioned Costs. We also noted certain immaterial instances of internal control deficiencies, which we have reported to management of the Authority in a separate letter, dated October 28, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which are reported as



State compliance findings in the accompanying Schedule of Findings and Questioned Costs. We also noted certain other matters, which we have reported to management of the Authority in a separate letter, dated October 28, 2005.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Authority management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Chicago, Illinois
October 28, 2005



KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, and on the Schedule of Expenditures of Federal Awards

Honorable William G. Holland
Auditor General
State of Illinois:

Compliance

We have audited the compliance of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Authority's major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Illinois Housing Development Authority, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 05-01, 05-03, 05-04, and 05-05.



Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 05-01, 05-02, 05-03, 05-04, and 05-05.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the governmental activities, the business-type activities, and each major fund of the Authority as of and for the year ended June 30, 2005, and have issued our report thereon dated October 28, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Authority management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Chicago, Illinois

December 18, 2005, except for paragraph seven as to which the date is October 28, 2005.

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: ***unqualified opinions***

Internal control over financial reporting:

- | | | |
|---|-----------|---|
| • Material weakness(es) identified? | _____ Yes | _____ <input checked="" type="checkbox"/> No |
| • Reportable condition(s) identified that are not considered to be material weakness(es)? | _____ Yes | _____ <input checked="" type="checkbox"/> None reported |
| • Noncompliance material to financial statements noted? | _____ Yes | _____ <input checked="" type="checkbox"/> No |

Federal Awards

Internal control over major programs:

- | | | |
|---|---|--|
| • Material weakness(es) identified? | _____ Yes | _____ <input checked="" type="checkbox"/> No |
| • Reportable condition(s) identified that are not considered to be material weakness(es)? | _____ <input checked="" type="checkbox"/> Yes | _____ None reported |

Type of auditors' report issued on compliance for major programs: ***unqualified opinion***

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____ ☒ Yes _____ No

Identification of major programs:

<u>CFDA number(s)</u>	<u>Name of federal program or cluster</u>
14.182 and 14.856	Section 8 Project-Based Cluster
14.239	HOME Investment Partnerships Program

Dollar threshold used to distinguish between type A and type B programs: \$ 3,000,000

Auditee qualified as low-risk auditee?

_____ Yes _____ ☒ No

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

- (2) **Findings Relating to the Financial Statements in Accordance with *Government Auditing Standards*:**
None
- (3) **Findings and Questioned Costs Relating to Federal Awards: Yes**

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings and Questioned Costs (Federal Compliance)

Year ended June 30, 2005

05-01 Inadequate Monitoring of Subrecipients Receiving Federal Awards

Federal Agency: *US Department of Housing and Urban Development*

Program Name: *HOME Investment Partnership Program*

CFDA# and Program Expenditures: *14.239 (\$22,859,448)*

Award Number: *M-05-SG170100*

Questioned Costs: *None*

The Illinois Housing Development Authority (Authority) is not properly notifying all of its subrecipients of the Federal award information and does not document its process in place to follow up on delinquent OMB Circular A-133 reports. The Authority does not have a process in place to ensure management decisions on program findings are issued within six months. Additionally, the Authority is not adequately documenting a supervisory review of the desk review and on-site monitoring checklists.

The Authority utilizes a standard agreement to notify the subrecipient of the award. The Authority receives financial statement reports from all of its subrecipients and also receives OMB Circular A-133 reports from those subrecipients who expend \$500,000 or more of federal awards in their fiscal year. The Authority utilizes standard checklists to document its desk review process and its on-site monitoring visits.

During our testing of the Authority's subrecipient monitoring process for the HOME Investment Partnerships Program (HOME program), we selected twenty-nine subrecipients with total expenditures of \$10,582,806 (100% of all subrecipients). We noted the following exceptions:

- Five of the subrecipient agreements did not identify the Catalog of Federal Domestic Assistance (CFDA) number and federal agency name.
- Seventeen of the subrecipient OMB Circular A-133 reports were received from 15 to 268 days after the reports were due, and there was no documentation of the Authority's attempts to collect the delinquent reports. Additionally, the Authority did not document the date of receipt for one subrecipient's OMB Circular A-133 report.
- The desk review and on-site monitoring checklists used did not contain a documented supervisory review.
- Six of the subrecipients had instances of noncompliance in their reports, and the Authority did not follow up on and did not issue a management's decision on these audit findings as of January 20, 2006.

According to OMB Circular A-133 §.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws,

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings and Questioned Costs (Federal Compliance)

Year ended June 30, 2005

regulations, and program compliance requirements. Effective internal controls should include a supervisory review of desk reviews performed and completed on-site monitoring checklists.

Additionally, per the OMB Circular A-133 Compliance Supplement dated March, 2005, the Authority is required to perform the following for all subrecipients receiving HOME funding:

- Identify the federal award information (e.g., CFDA title and number, award name, name of the federal agency) and applicable compliance requirements.
- Ensure required audits are performed and require the subrecipients to take prompt corrective action on any audit findings.
- Monitor subrecipient activities to provide reasonable assurance that subrecipients administer the federal awards in compliance with federal requirements.
- Evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Management indicated that the CFDA and federal awarding agency are included in all new subrecipient agreements since 2004; however, the older agreements were never revised to include this information. Management indicated they were unaware of the need for a supervisory review of the desk review and on-site monitoring checklists. Management indicated they did follow up with the subrecipients who had delinquent audit reports via e-mail, but did not retain this documentation. Management also indicated shortages in staffing resulted in the lack of follow up on the corrective action of the audit findings of their subrecipients.

Failure to adequately monitor all subrecipients could result in federal funds being expended for unallowable purposes and/or to subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code No. 05-01, 04-01, 03-01, 02-01)

Recommendation

We recommend the Authority implement the following:

- Revise its outstanding subrecipient agreements to include the CFDA number and federal awarding agency;
- Document the monitoring and follow up procedures on the submission of OMB Circular A-133 reports from subrecipients;
- Implement a supervisory review of the desk review and on-site monitoring checklists; and
- Establish procedures to ensure management decisions are issued within six months of receipt of the audit reports.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings and Questioned Costs (Federal Compliance)

Year ended June 30, 2005

Authority Response

The Authority concurs with the above recommendations and is taking or has taken the following actions to ensure adequate monitoring of subrecipients receiving Federal Awards.

The Authority will send letters to the subrecipients whose agreements did not include the CFDA number and federal awarding agency information. These letters will notify the parties of this information.

The Authority will implement procedures to assure that the monitoring and follow up procedures on the submission of OMB Circular A-133 reports from subrecipients, and that the supervisory review of the desk review and on-site monitoring checklists, are properly documented on the Authority's checklists. A monthly supervisory and follow-up procedure is being implemented, as the Authority has assigned a staff member to review audit tracking lists monthly and to request all audits in a timely manner.

The monthly supervisory review will include procedures to ensure that management decisions are issued within six months of receipt of the audit reports, as recommended.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings and Questioned Costs (Federal Compliance)

Year ended June 30, 2005

05-02 Inadequate Review of the Maximum Per Unit Subsidy Calculation

Federal Agency: **US Department of Housing and Urban Development**

Program Name: **HOME Investment Partnerships Program**

CFDA# and Program Expenditures: **14.239 (\$22,859,448)**

Award Number: **M-05-SG170100**

Questioned Costs: **None**

The Illinois Housing Development Authority (Authority) did not review the maximum per unit subsidy calculation during the year ended June 30, 2005.

During our testing of the maximum per unit subsidy special test for the HOME Investment Partnership Program (HOME), we selected all new HOME loan projects that closed during the year totaling \$19,995,031, and noted the Authority used incorrect subsidy limits for 4 out of 11 new loans selected. Upon our request, the Authority re-performed the calculation using the correct subsidy limits, and determined the projects were in compliance with the maximum per unit subsidy requirement.

The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to document the maximum per unit calculations and document a supervisory review of such calculations to ensure accuracy prior to HOME loan funds being disbursed.

Authority management stated that when the Authority receives financing requests that utilize HOME funds, there is a per unit subsidy review performed by the underwriter to confirm if the request is within the allowable limits. This test is used to determine if the initial request is too large or if additional units must be allocated to the HOME financing to justify the financing. If the request is within the limits, no additional testing is being performed.

Failure to review the maximum per unit calculation could result in HOME funds being expended for unallowable purposes. (Finding Code No. 05-02, 04-03)

Recommendation

We recommend the Authority implement procedures to ensure all maximum per unit subsidy calculations are reviewed by a supervisor prior to HOME loan funds being disbursed.

Authority Response

The Authority concurs with the recommendations to implement procedures to ensure all maximum per unit subsidy calculations are reviewed by a supervisor prior to HOME loan funds being disbursed.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings and Questioned Costs (Federal Compliance)

Year ended June 30, 2005

05-03 Inaccurate Calculation and Reporting of Match Expenditures

Federal Agency: *US Department of Housing and Urban Development*

Program Name: *HOME Investment Partnerships Program*

CFDA# and Program Expenditures: *14.239 (\$22,859,448)*

Award Number: *M-05-SG170100*

Questioned Costs: *\$165,258*

The Illinois Housing Development Authority (Authority) inaccurately calculated and reported its match for the HOME Investment Partnerships Program (HOME).

The Authority uses below market interest rate loans from borrowed funds as its match for the HOME program. The match contribution for loans made with borrowed funds should equal the present cash value of the difference between payments made and payments received, based upon a discount rate equal to the interest rate on the borrowed funds, of new loan funds issued during the fiscal year. The Authority uses an excel spreadsheet to perform this calculation. The Authority is required to submit on an annual basis a HOME Match report, which documents the amount of match taken on each loan.

During our testing of the match calculations for the HOME program, we selected twelve loans used as match for a total of \$10,516,860 out of \$21,041,221 of match reported for the HOME program. We noted three of the twelve (25%) calculations used loan terms that did not agree to the final loan documents, resulting in an over reporting of match funds totaling \$165,258. Additionally, we noted there was no documented supervisory review of the calculations or the HOME match report prior to submission.

24 CFR 92.220 (a)(1)(ii)(A) requires that the match contribution for loans made with borrowed funds should equal the present cash value of the difference between payments made and payments received, based upon a discount rate equal to the interest rate on the borrowed funds. The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the accuracy of the match calculations, and to perform a supervisory review of federal reports prior to submission.

Authority management stated that the lack of a review of the match calculations was due to staff shortages at the time of compiling these reports.

Failure to accurately calculate match expenditures results in the Authority providing incorrect information on their required annual HOME Match Report. (Finding Code No. 05-03, 04-04)

Recommendation

We recommend the Authority implement procedures to ensure match calculations are accurate, and the HOME match report is reviewed by a supervisor prior to submission.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings and Questioned Costs (Federal Compliance)

Year ended June 30, 2005

Authority Response

The Authority concurs with the recommendation to implement procedures to ensure that match calculations are accurate, and the HOME match report is reviewed by a supervisor prior to submission. The match calculation will change if the final rate charged differs from that included in the initial underwriting, and this change is not communicated. The Authority will implement a procedure to ensure that all revisions are communicated, and that a supervisor will review the match report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings and Questioned Costs (Federal Compliance)

Year ended June 30, 2005

05-04 Inadequate Cash Management Procedures

Federal Agency: **US Department of Housing and Urban Development**

Program Name: **Section 8 Project-Based Cluster**

CFDA# and Program Expenditures: **14.182 (\$144,844,613)**

14.856 (\$9,805,992)

Award Number: **None**

Questioned Costs: **None**

The Illinois Housing Development Authority (Authority) does not have procedures in place to ensure cash draws are performed in accordance with U.S. Treasury Regulations.

The Authority receives its Section 8 project funding during the first week of each month, based upon a budgeted amount approved at the beginning of the year by the U.S. Department of Housing and Urban Development. The Authority either applies the amount to the loan balance or transfers the amount to the development during the third week of the month. During our testing we selected thirty Section 8 project developments receiving federal funds for test work, and we noted that the Authority held funds for fifteen days before the funds were either applied to the loan balances or disbursed to the development.

31 CFR Part 205.33 (a) of the U.S. Treasury Regulations requires that a Federal Program Agency must limit a funds transfer to a recipient to the minimum amounts needed by the recipient and must time the disbursement to be in accord with the actual, immediate cash requirements of the recipient in carrying out a federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to the Authority's actual cash outlay for direct program costs. This section has been interpreted to mean that funds should be disbursed within 3-5 business days from receipt. The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure federal funds are disbursed in accordance with the U.S. Treasury Regulations.

Authority management stated that the timing of passing through the Section 8 project funding is a long-standing practice that is performed in conjunction with the billing cycle, which is around the middle of the month. Through the billing cycle, a number of reports are generated that document the transfer process.

Failure to draw funds in accordance with the U.S. Treasury Regulations could result in the cognizant agency, the U.S. Department of Housing and Urban Development, to sanction the Authority for non-compliance or possibly reduce the funding of the Section 8 Project Programs. (Finding Code No. 05-04, 04-05)

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings and Questioned Costs (Federal Compliance)

Year ended June 30, 2005

Recommendation

We recommend the Authority implement procedures to ensure federal funds are disbursed in accordance with the U.S. Treasury Regulations.

Authority Response

The Authority concurs with the recommendation and has implemented procedures to ensure federal funds are disbursed in accordance with the U.S. Treasury Regulations. The Authority examined the feasibility of accelerating its billing cycle, and, as a result in January 2006 accelerated its cycle by one week in order to further limit the number of days before it transfers federal funds.

The timing of passing through the Section 8 project funding is performed in conjunction with the billing cycle, which was around the middle of the month. Through the billing cycle, a number of reports are generated that document the transfer process. A large portion of the Section 8 funds are not passed through directly to the recipient, but instead are retained by the Authority to pay the recipients' debt service payments and fund escrow accounts.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings and Questioned Costs (Federal Compliance)

Year ended June 30, 2005

05-05 Failure to Obtain Suspension and Debarment Certifications for Subrecipients

Federal Agency: *US Department of Housing and Urban Development*

Program Name: *Home Investment Partnerships Program*

CFDA# and Program Expenditures: *14.239 (\$22,859,448)*

Award Number: *M-05-SG170100*

Questioned Costs: *None*

The Illinois Housing Development Authority (the Authority) did not obtain required certifications that subrecipients were not suspended or debarred from participation in federal assistance programs for its Home Investment Partnerships Program (HOME).

During our review of 29 subrecipients of the Home program, we noted the Authority did not include a suspension and debarment certification in its subrecipient agreements. As a result, the Authority did not receive certifications that any of the subrecipients of the HOME program were not suspended or debarred from participation in federal assistance programs. Additionally, the Authority did not perform a verification check with the "Excluded Parties List System" (EPLS) maintained by the General Services Administration for any of its subrecipients; however as a result of our audit test work we noted that none of these subrecipients were suspended or debarred from participation in federal assistance programs. During the year ended June 30, 2005, the Authority passed through approximately \$10,582,806 to subrecipients of the HOME program.

According to 45 CFR 92.35, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549, "Debarment and Suspension." The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are received, documented, and not made with a debarred or suspended party.

Authority management indicated the lack of the certification was an oversight.

Failure to obtain the required certifications or perform verification procedures with the EPLS could result in the awarding of federal funds to subrecipients that are suspended or debarred from participation in federal assistance programs. (Finding Code No. 05-05)

Recommendation

We recommend the Authority establish procedures to ensure grantees receiving individual awards for \$25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in a federal assistance program.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings and Questioned Costs (Federal Compliance)

Year ended June 30, 2005

Authority Response

The Authority concurs with the recommendation to implement procedures to ensure grantees receiving individual awards for \$25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal Assistance programs. As noted above, it was confirmed that none of the subrecipients were suspended or debarred from participation in federal assistance programs. The Authority is amending its procedures so that all subrecipients will be required to provide the Authority with the debarment certifications in conjunction with the Authority's Conditional Commitment Letter for funding.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings (State Compliance)

Year ended June 30, 2005

05-06 Inadequate Process for Timely Preparation of Financial Information and Statements

The Illinois Housing Development Authority (the Authority) does not have an adequate process to ensure financial reporting is completed in a timely manner.

The Authority has a total of \$1,493,002,435 bonded debt outstanding as of June 30, 2005. The Authority's debt covenants require that the audited financial statements of the Authority accompanied by the related report of an accountant be filed within 120 days of the end of each fiscal year with the trustee and each rating agency of each of its bond issuances. Thus, the June 30, 2005 financial statements were required to be filed no later than midnight on October 28, 2005. In the planning stages of the financial audit, the Authority agreed to provide draft financial statements to the auditors on September 15, 2005 to allow the auditors approximately thirty business days to complete the testing of the Authority's financial information and financial statements. However, the first draft of the financial statements was not received until October 19, 2005, which was over twenty business days later than what had been planned. This delay led to significant strain on the audit resources to complete the required testing and reviews in a timely manner so that the Authority would meet the required filing deadline.

Authority management stated the process for preparing the financial statements involves numerous reconciliations of the various subsidiary ledgers that account for the different loan program receivables, and some of these ledgers are not interfaced with the general ledger. Additionally, a detail review of the collectibility of the loan balances is conducted only at year-end to determine the proper reserve balances. This analysis takes a substantial amount of time and effort and is not finalized and approved until the Authority's October board meeting.

Without preparing the financial information and financial statements in a timely manner, the Authority is at risk of a significant item being identified during the financial statement audit which the Authority may not have sufficient time to address. If the Authority's financial statements are not filed within the required timeframe, the Authority is in noncompliance with its debt covenants, which could result in an acceleration of the outstanding debt. (Finding Code No. 05-06)

Recommendation

We recommend the Authority review the current process for preparing the financial statements and incorporate changes that will allow for the completion of the financial statements in a timely manner so the auditors' testing can be completed well in advance of the financial statement required filing date.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings (State Compliance)

Year ended June 30, 2005

Authority Response

The Authority concurs with and is proceeding to implement the recommendation that the Authority review the current process for preparing the financial statements and incorporate changes that will allow for the completion of the financial statements in a timely manner so the auditors' testing can be completed well in advance of the financial statement required filing date. The Authority in March 2006 reorganized its accounting department to streamline the functioning of the department, achieve greater specialization and to implement a number of procedural controls. In addition, throughout the current fiscal year the Authority has continued to improve the linkages of its various sub-systems to its general ledger with the result that monthly financial statements are now being prepared. These enhancements should enable the Authority to prepare its annual financial information on a timely basis.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings (State Compliance)

Year ended June 30, 2005

05-07 Documentation of Internal Control Structure

The Illinois Housing Development Authority (Authority) does not have adequate documentation of its internal control structure.

Organizations are placing greater emphasis on their control environment and the specific controls in place to ensure transactions recorded are complete and accurate. Although control procedures have been developed, we noted the Authority has not formally documented the specific internal controls in place to ensure transactions are recorded in accordance with the applicable financial statement risks and assertions (i.e., completeness, existence, accuracy, valuation, rights and obligations, and presentation and disclosure).

Although employees are familiar with the processes and controls in place, an in depth written description of the Authority's control environment should be developed and should include the internal controls over the key transaction processes including cash receipts; cash disbursements; investment management; payroll; program funding; and lending. Internal control processes should be flowcharted in order to identify how segregation of duties is achieved. This documentation should be reviewed and assessed periodically to identify any changes required to provide an accurate reflection of the current system of internal control.

Formal internal control documentation will provide a tool for training accounting personnel in new positions, increased standardization of the control efforts, clarification of accounting responsibilities and consistent application of management's policies and procedures.

Authority management stated they intend to document the processes after all other systems have been linked to the general ledger.

Failure to document the internal control structure can weaken controls and does not allow them to function as mitigating deterrents to prevent fraud and other factors appropriately or for management policies and procedures to be applied consistently. (Finding Code No. 05-07, 04-06.)

Recommendation

We recommend the Authority develop in-depth written documentation of their internal control structure, including flow charts of the internal controls.

Authority Response

The Authority concurs with the recommendation to develop in-depth written documentation of the Authority's internal control structure, including flow charts of the internal controls and risk assessment in every area. The Authority, as part of its program to re-engineer its financial processes, developed documentation, which included flow-charting of many of its financial processes. These will be used as a starting point to document various internal control and separation of duties issues. Accounting Department processes and tasks have recently been restructured such that all tasks are specifically assigned to certain staff members, along with the backup personnel to perform these, and duties have been separated. The Authority will prepare flowchart documentation of the revised structure. The Authority's internal audit

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings (State Compliance)

Year ended June 30, 2005

department also is preparing flow-charts, which document the internal control structure, of every process being audited.

The Authority also documents its internal controls through the preparation of the annual Control Certification Letter and supporting Questionnaire, as required by the Office of the Auditor General.

Although the Authority has begun the project, the recommended project constitutes a major undertaking of the Authority involving the use of considerable resources and will not be completed until at least fiscal year 2007.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings (State Compliance)

Year ended June 30, 2005

05-08 Accounting for Program Loans Receivable

The Illinois Housing Development Authority (the Authority) did not properly reconcile the loan subsidiary system for the Affordable Trust Fund program loans to the general ledger as of June 30, 2005. Additionally, the Authority does not have an adequate process for the establishment of new loans in the loan subsidiary system.

The Authority implemented a loan subsidiary system (Benedict billing and receivable system) in prior years to track loan activity and the outstanding loan balances of its Multi-Family, HOME, and Affordable Trust Fund programs. The implementation of this system was meant to provide Authority management with a formal platform to monitor program loans. The system is updated for program loans issued to or redeemed by developments on an ongoing basis. The system will then automatically generate principal and interest billing statements for distribution to developments based on the input information.

During our testing we noted the Affordable Trust Fund program loan balances recorded in the Benedict system were not reconciled to the general ledger as of June 30, 2005. The variance totaled \$347,360 and total loan balances for the Affordable Trust Fund program per the Benedict system was \$193,060,620 at June 30, 2005. Additionally, the Authority does not have an adequate process to ensure that new loans are accurately entered into the Benedict system. Specifically, we noted that one individual is responsible for entering new loan information into the Benedict system without a supervisory review of the information added or changed.

Authority management stated that the Benedict system did not become fully linked to the general ledger until late in the fiscal year.

Without ensuring program loan balances are properly included and updated in both the Benedict system and general ledger and controls embedded within the Benedict system are functioning properly and can be relied upon to input and update these loan balances, the risk exists that the true outstanding loan balance and activity will not be known by management and properly reported in the financial statements. (Finding Code No. 05-08, 04-08, 03-03, 02-04, 01-3.)

Recommendation

We recommend the Authority:

- Establish and implement procedures to reconcile the program loan balances reported per the Benedict system to the general ledger on a monthly basis. Discrepancies noted between the systems should be identified and reviewed by Authority management in a timely manner to ensure the accurate monitoring and reporting of outstanding loan balances and activity.
- Implement procedures to include a supervisory review of new loans entered into the Benedict system to ensure the loan terms agree to the final loan documents.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings (State Compliance)

Year ended June 30, 2005

Authority Response

The Authority concurs with the recommendations to establish and implement procedures to reconcile the program loan balances reported per the Benedict system to the general ledger on a monthly basis and to implement procedures to include a supervisory review of new loans entered in the Benedict system to ensure the loan terms agree to the final loan documents. The Accounting Department reorganization plan addressed both of these issues and assigned specific individuals and supervisory personnel to accomplish these tasks. The Authority during fiscal year 2006 has been reconciling the Benedict system to the general ledger and is in the process of refining the procedure, to include doing so on a monthly basis.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings (State Compliance)

Year ended June 30, 2005

05-09 Loan Loss Reserve Calculation Does Not Consider all Relevant Factors

The key processes used by the Illinois Housing Development Authority (Authority) to monitor the commercial loan portfolio includes annual/semiannual property inspections, annual independent audit reports, comprehensive annual loan rating reports, and monthly meetings to review problem assets. On an annual basis, the asset manager uses a standard loan rating form, and rates all loans based upon the results from the annual independent audit report of the property, the property inspection report, as well as other periodic cash flow information submitted by the borrower. The four main areas rated are as follows:

- Financial – factors consider current budget, adequacy of replacement reserves, timely submission of financial reports, etc.
- Management – factors consider compliance reports, rent collection procedures, tenant waiting list, etc.
- Physical condition – factors include interior-exterior condition, vacant apartment preparation, building code violations, etc.
- Market – factors consider surrounding neighborhood, housing demand, etc.

Loans are rated A (best) through D (lowest) based on a score assigned to each component in the four sections. The score is then totaled for each section and an overall risk rating is assigned based on the cumulative score of the components. General reserves are assigned for each loan based on the rating. Specific reserves are generally assigned when management feels that foreclosure and liquidation of the underlying asset will be required, or there is a recognized weakness in the property. The Authority has approximately 1,600 loans outstanding for a total of approximately \$925,600,000 subject to the loan loss reserve rating review process at June 30, 2005.

We tested 60 loans in the multi-family, single family, and trust fund programs totaling approximately \$184 million or 12% of the Authority's receivables as of June 30, 2005. During our testing of the loans we noted that required and scheduled property inspections were not completed in accordance with the Authority's policy. We identified 20 loans totaling approximately \$30,329,000 that did not have inspections performed in 2004 and still had not been inspected as of September 30, 2005. In addition, we identified 24 other loans totaling approximately \$71,729,000 that had not yet been inspected in calendar year 2005. We also noted the following:

- The Authority does not utilize a trend and forecast analysis of the reserves based upon actual historical experience of the portfolio. The Authority should review actual historical experience in the portfolio and prepare a trend analysis, including projections based on key assumptions about future portfolio growth, housing data and demand, the economy, and other relevant factors.
- The Authority does not rate loans at inception, but rather gives a period of time for loans to season and judges loans based on historical performance. Industry practices indicate that loans should be rated at inception based on forecasts and later changed if anticipated performance does not meet projections.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings (State Compliance)

Year ended June 30, 2005

- The Authority performs its formal loan review analysis at year end only. The size and complexity of the loan portfolio indicates the need for a formal loan review function throughout the year to provide senior management an independent assessment of loan policy and procedure compliance.
- The Authority does not require its managing agents (developers) to establish operating and maintenance plans and to obtain appraisals for all troubled properties. The developers should establish operating and maintenance plans and report the progress on a quarterly basis to the Authority's loan portfolio management.
- The Authority's rating scale for the loans only provides four grades which are intended to reflect the operating condition of the housing project and not necessarily emphasizing the repayment capacity of the borrower. The definitions for each grade are general and are applied judgmentally by the various asset managers depending on how the loan rating form is completed. One result of the grade scale is that loans with significant differences may receive the same letter grade because one area's lower score may be offset by another area's higher score. Industry practice utilizes a more robust scale consisting of as few as eight and as many as 30 grades. Increasing the number of grades and assigning specific definitions that place a greater emphasis on the financial collectibility of the loans to each grade will permit the Authority to differentiate the loans with greater precision and will in turn impact the reserves calculation.
- The Authority's reporting does not include a detailed liquidation analysis and recovery prospects for D rated loans. Detailed liquidation analyses supported by financial projections should be performed for all D and in some cases C rated properties.
- The Authority has not established a policy to describe the circumstances under which a property needs an appraisal, and collateral appraisals are infrequent. The Authority should require appraisals for all C and D rated properties, and those appraisals should be utilized when determining the loan ratings.
- Underlying investor support and real estate tax credits are not considered in the documentation for the loan rating process. These factors should be analyzed to determine possible benefits, and formally documented in each loan review file.

Management stated that they have relied heavily on the analysis and observations of its Asset Management Department to determine the appropriate loan loss reserves, including liquidation values, but would consider taking additional measures to determine and document these assessments.

Without taking these factors into consideration, the loan loss reserve estimate may not include the most accurate and complete information for the preparation of internal management reports and external financial statements. (Finding Code No. 05-09, 04-09.)

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings (State Compliance)

Year ended June 30, 2005

Recommendation

We recommend the Authority:

- Implement procedures to ensure all required and scheduled property inspections are completed during the year per the Authority's policy.
- Adopt a trend and forecast methodology based upon the historical performance of the portfolio and utilize this analysis when establishing the loan reserves.
- Rate loans at inception based on forecasts and later change the rating if anticipated performance does not meet projections.
- Establish a formal loan review function throughout the year to provide senior management an independent assessment of loan policy and procedure compliance.
- Require developers to establish operating and maintenance plans and report the progress on a quarterly basis to the Authority's loan portfolio management.
- Consider expanding the rating scale and formally document the definitions of each grade, taking into account the estimated collectibility of each loan within the grade definitions.
- Perform detailed liquidation analyses supported by financial projections for all D and in some cases C rated properties.
- Establish a formal policy to describe the circumstances under which a property needs an appraisal. Require appraisals for all C and D rated properties, and utilize the appraisals when determining the loan ratings. When appraisals are not feasible, a formal analysis of potential exposure should be documented in the loan files.
- Formally document the consideration of investor support and real estate tax credits within each loan file.

Authority Response

The Authority will make every effort to ensure that all required and scheduled property inspections are completed during the year per the Authority's policy, recognizing that, as occurred during fiscal year 2005, staff resignations and other unplanned events may affect the timing of such inspections.

The Authority will investigate the adoption of a trend and forecast methodology based upon the historical performance of the portfolio to utilize when establishing the loan reserves, but believes that this analysis would only be of limited benefit. The Authority loan portfolios differ materially in their nature and vary in their age and ultimate maturities.

The Authority concurs with the recommendation to rate loans at inception, and will base the ratings on its initial underwriting analysis and later change the rating if anticipated performance does not meet projections.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Current Year Findings (State Compliance)

Year ended June 30, 2005

The Authority concurs with the recommendation to establish a formal loan review function throughout the year to provide senior management an independent assessment of loan policy and procedure compliance. The Authority has undertaken this during fiscal year 2006 and is conducting more extensive reviews to assess its reserves as of December 31 and March 31. The Authority also intends to contract with an outside firm to provide an independent assessment of loan policy and procedure compliance.

The Authority concurs in principle with the recommendation to require developers to establish operating and maintenance plans and report the progress on a quarterly basis to the Authority's loan portfolio management. The Authority, for its first position loans, continuously collects operating and maintenance information from developments through its annual and periodic inspections. In addition, budgets, audited financial statements and monthly operating reports/tenant selection plans are reviewed. If problems are noted, the Authority requests that the development management prepare plans to correct the situation noted. The Authority will take measures to document these plans and the progress made towards their successful implementation. The Authority's agreements for loans in which the Authority has a subordinate position, however, do not require the submission of such reports, and the Authority, as a result, may not be able to obtain such reports.

The Authority concurs with the recommendation to consider expanding the rating scale and formally document the definitions of each grade, taking into account the estimated collectibility of each loan within the grade definitions.

The Authority concurs with the recommendation to perform detailed liquidation analyses supported by financial projections for all D and in some cases C rated properties. The Authority would use this analysis to adjust the reserve, if necessary, from the standard reserve percentage on such loans. This would essentially have the effect of expanding the rating scale.

The Authority concurs with the recommendation to establish a formal policy to describe the circumstances under which a property needs an appraisal. The Authority is currently ordering appraisals for D rated properties in which the Authority has a significant financial position. These appraisals are being utilized when considering the loan loss reserve pertaining to these properties.

The Authority concurs with the recommendation to formally document, when applicable, the consideration of investor support and real estate tax credits in each loan review file.

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs

Current Year Findings (State Compliance)

Year ended June 30, 2005

05-10 Time Sheets Not Maintained in Compliance With the State Officials and Employees Ethics Act

The Illinois Housing Development Authority (Authority) did not maintain time sheets for its employees in compliance with the State Officials and Employees Ethics Act (Act) during the year ended June 30, 2005.

The Act requires the Authority to maintain a positive timekeeping process. Specifically, the Act (5 ILCS 430/5-5(c)) states, "The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour." Additionally, all management is required to fill out an additional timesheet documenting time on and off official state business.

During our test work we noted the Authority does not require time reports from its salaried people unless overtime hours are incurred.

Authority management indicated they did not receive direction from the Governor's Office until March, 2005 and that they amended their policies and procedures effective July 13, 2005, requiring the maintenance of time sheets in compliance with the Act.

Without maintaining a positive timekeeping system, the Authority may not be properly tracking time spent on official state business, and is not in compliance with the Act. (Finding Code No. 05-10, 04-10)

Recommendation

We recommend the Authority ensure its employees follow the new policy requiring them to maintain time sheets in compliance with the Act.

Authority Response

The Authority concurs with the recommendation and, on July 13, 2005 began to maintain time sheets in compliance with the Act.

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

Year ended June 30, 2005

Federal Compliance

05-11 Improper Exclusion of State Recipient Payments from Schedule of Expenditures of Federal Awards

The Illinois Housing Development Authority (Authority) improperly excluded state recipient payments under the HOME Program from the Schedule of Expenditures of Federal Awards (SEFA). In the current audit period, the Authority properly included the state recipient payments in the SEFA. (Finding Code No. 04-02)

State Compliance

05-12 System Reconciliation Procedures

The Authority had not implemented procedures to reconcile data outputs for the MITAS, CAMRA and Benedict Systems to the general ledger. In the current period the Authority implemented reconciliation procedures. (Finding Code No. 04-07, 03-02, 02-03, 01-2 and 00-2)

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Supplementary Information for State Compliance Purposes

Year ended June 30, 2005

Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedule of Expenditures of Federal Awards
 - Notes to Schedule of Expenditures of Federal Awards
 - Comparative Schedule of Cash Receipts
 - Schedule of Changes in State Property
 - Furniture, Equipment, and Leasehold Improvements
 - Analysis of Significant Account Balances
 - Analysis of Significant Variations in Revenue and Significant Variations in Expenses
 - Analysis of Administrative Costs
 - Description of Cash Accounts
 - Description of Investments
 - Affordable Housing Trust Fund
- Analysis of Operations:
 - Authority Functions and Planning Program
 - Average Number of Employees (Unaudited)
 - Illinois FIRST Program (Unaudited)
 - Emergency Purchases
 - Service Efforts and Accomplishments (Unaudited)
 - Production/Preservation Activity in Terms of Housing Units (Unaudited)
 - Production of Low Income Units by Program (Unaudited)
 - Production/Preservation Activity by Region (Unaudited)
 - Summary Production Data (Unaudited)
 - Schedule of Federal and Nonfederal Expenditures

This information relates to the Authority's proprietary funds unless otherwise noted.

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Federal grant/program title	CFDA number	Award amount	Due to (from) HUD June 30, 2004	Revenue	Expense/ expenditure	Due to (from) HUD June 30, 2005
U. S. Department of Housing and Urban Development:						
Major programs:						
Section 8 Project-Based Cluster:						
Section 8 New Construction and Substantial Rehabilitation	14.182	\$ —	1,944,376	143,450,001	144,844,613	549,764
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856	—	1,424,413	4,860,075	9,805,992	(3,521,504)
Total Section 8 Project-Based Cluster		—	3,368,789	148,310,076	154,650,605	(2,971,740)
HOME Investment Partnerships Program	14.239	22,859,448	—	22,859,448	22,859,448	—
Nonmajor program –						
Interest reduction payments – Rental and Cooperative Housing for Lower Income Families	14.103	5,452,141	—	5,452,141	5,452,141	—
Total		\$ 28,311,589	3,368,789	176,621,665	182,962,194	(2,971,740)

See accompanying notes to the schedule of expenditures of federal awards.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

(1) General

The Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the Authority. The amount due from HUD at June 30, 2005 is included in the business-type activities of the Authority's Statement of Net Assets.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting for proprietary funds and modified accrual basis of accounting for governmental funds.

Relation to the Schedule of Expenditures of Federal Awards

Amounts reported in the Schedule of Expenditures of Federal Awards reconcile with the amounts reported in the related federal financial reports. For the HOME program, amounts reported as expenditures include \$10,582,806 in grant expenditures. The amount of HOME loans disbursed during the year ended June 30, 2005 is \$11,154,228. The amount of HOME loans outstanding at June 30, 2005 is \$127,620,866.

Expense/Expenditure

Amounts reported as expenditures on this Schedule include approximately \$5,400,000 in administrative fees retained by the Authority.

Subrecipients

For Federal CFDA numbers 14.856, 14.182, 14.103, and 14.239, HUD funds are passed through the Authority to the developers and organizations who are considered subrecipients. The following amounts were passed through to subrecipient during the year ended June 30, 2005:

CFDA number	Subrecipient amount
14.182 and 14.856	\$ 154,650,605
14.239	10,582,806
14.103	5,452,141
	\$ 170,685,552

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Administrative Fund:		
Cash received from:		
Interest from program loans	\$ 3,632,926	3,607,897
Service fees from program loans	8,325,217	6,782,803
Principal from program loans	<u>5,099,405</u>	<u>3,616,056</u>
	17,057,548	14,006,756
Proceeds from federal assistance programs	149,198,655	152,104,352
Interest on investments	1,522,834	2,069,633
Interest on escrow deposits	3,653,977	2,291,773
Proceeds from sales and maturities of investment securities	669,266,692	745,844,740
Transfer of funds from single family funds	<u>276,894</u>	<u>2,297,576</u>
Total	<u>\$ 840,976,600</u>	<u>918,614,830</u>
Mortgage Loan Program Fund – Housing Development Bonds:		
Cash received from:		
Interest from program loans	\$ —	3,431,686
Service fees from program loans	—	57,071
Principal from program loans	<u>—</u>	<u>3,151,554</u>
	—	6,640,311
Proceeds from federal assistance programs	—	1,746,540
Interest on investments	—	526,319
Proceeds from sales and maturities of investment securities	—	102,333,544
Transfer of funds from administrative and other funds	<u>—</u>	<u>46,950,417</u>
Total	<u>\$ —</u>	<u>158,197,131</u>
Mortgage Loan Program Fund – Multi-Family Housing Bonds:		
Cash received from:		
Interest from program loans	\$ 10,951,390	14,530,256
Principal from program loans	<u>22,147,726</u>	<u>74,263,089</u>
	33,099,116	88,793,345
Proceeds from federal assistance programs	153,169	153,381
Interest on investments	3,245,733	3,835,593
Proceeds from sales and maturities of investment securities	171,543,767	203,191,512
Other	<u>—</u>	<u>885,883</u>
Total	<u>\$ 208,041,785</u>	<u>296,859,714</u>

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Mortgage Loan Program Fund – Fixed Rate Housing Bonds:		
Cash received from:		
Interest from program loans	\$ —	403,270
Principal from program loans	—	124,412
	<u>—</u>	<u>527,682</u>
Proceeds from federal assistance programs	—	282,231
Interest on investments	—	449,024
Proceeds from sales and maturities of investment securities	—	30,954,780
Transfer of funds from administrative and other funds	—	5,530,659
Total	<u>\$ —</u>	<u>37,744,376</u>
Mortgage Loan Program Fund – Multi-Family Program Bonds:		
Cash received from:		
Interest from program loans	\$ 10,233,108	14,696,914
Principal from program loans	91,273,925	63,892,287
	<u>101,507,033</u>	<u>78,589,201</u>
Interest on investments	2,627,668	3,217,264
Proceeds from sales and maturities of investment securities	162,640,781	106,338,680
Transfer	—	158,820
Total	<u>\$ 266,775,482</u>	<u>188,303,965</u>
Mortgage Loan Program Fund – Housing Bonds:		
Cash received from:		
Interest from program loans	\$ 11,306,922	4,051,104
Service fees from program loans	—	376,647
Principal from program loans	11,478,375	7,046,454
	<u>22,785,297</u>	<u>11,474,205</u>
Proceeds from sale of revenue bonds	36,900,000	130,430,000
Proceeds from federal assistance programs	5,032,244	2,969,549
Interest on investments	1,095,686	1,808,667
Proceeds from sales and maturities of investment securities	213,567,436	166,646,581
Transfer of funds from administrative funds	258,147	27,185,602
Other	—	2,529,474
Total	<u>\$ 279,638,810</u>	<u>343,044,078</u>

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Mortgage Loan Program Fund – Multi-Family Variable Rate		
Demand Bonds:		
Cash received from:		
Interest from program loans	\$ 631,289	604,342
Service fees from program loans	1,250	8,125
Principal from program loans	<u>51,805</u>	<u>15,331</u>
	684,344	627,798
Interest on investments	77,335	49,561
Proceeds from sales and maturities of investment securities	<u>8,699,685</u>	<u>3,874,471</u>
Total	<u>\$ 9,461,364</u>	<u>4,551,830</u>
Mortgage Loan Program Fund – Multi-Family		
Housing Revenue Bonds:		
Cash received from:		
Interest from program loans	\$ <u>249,532</u>	<u>145,299</u>
	249,532	145,299
Interest on investments	160,266	97,729
Proceeds from sales and maturities of investment securities	19,807,793	16,281,895
Other	<u>3,554,284</u>	<u>2,974,490</u>
Total	<u>\$ 23,771,875</u>	<u>19,499,413</u>
Single Family Program Fund:		
Cash received from:		
Interest from program loans	\$ 34,328,828	30,371,900
Principal from program loans	<u>96,781,889</u>	<u>201,490,295</u>
	131,110,717	231,862,195
Interest on investments	10,616,426	13,141,428
Proceeds from sale of revenue bonds	338,433,372	191,577,523
Proceeds from sales and maturities of investment securities	918,152,142	580,207,118
Transfer of funds from other funds	<u>13,552,035</u>	<u>22,526,204</u>
Total	<u>\$ 1,411,864,692</u>	<u>1,039,314,468</u>
Illinois Affordable Housing Trust Fund:		
Cash received from:		
Interest from program loans	\$ 1,184,862	1,311,633
Principal from program loans	<u>4,487,348</u>	<u>3,820,908</u>
	5,672,210	5,132,541
Application fees	34,375	25,935
Interest on investments	1,335,006	685,249
Private donation	500,000	500,000
Real estate transfer taxes	<u>53,486,272</u>	<u>43,078,589</u>
Total	<u>\$ 61,027,863</u>	<u>49,422,314</u>

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Mortgage Loan Program Fund – Affordable Housing Program Trust		
Fund Bonds:		
Cash received from:		
Interest from program loans	\$ 2,444,189	2,665,789
Service fees from program loans	42,406	4,298
Principal from program loans	<u>3,262,959</u>	<u>3,116,119</u>
	5,749,554	5,786,206
Interest on investments	943,250	920,565
Proceeds from sale of revenue bonds	79,860,000	—
Transfer of fund from Illinois Affordable Housing Trust Fund	5,200,000	5,200,000
Proceeds from sales and maturities of investment securities	37,914,519	8,420,811
Other	<u>539,411</u>	<u>—</u>
Total	<u>\$ 130,206,734</u>	<u>20,327,582</u>
Home Program Fund:		
Cash received from:		
Interest from program loans	\$ 1,111,626	930,868
Principal from program loans	<u>957,077</u>	<u>744,119</u>
	2,068,703	1,674,987
Interest on investments	16,253	6,949
Federal HOME Funds	<u>19,088,699</u>	<u>16,578,918</u>
Total	<u>\$ 21,173,655</u>	<u>18,260,854</u>
Mortgage Loan Program Fund – Housing Finance Bonds:		
Cash received from:		
Interest from program loans	\$ 876,925	872,040
Principal from program loans	<u>211,343</u>	<u>198,340</u>
	1,088,268	1,070,380
Interest on investments	59,977	59,378
Proceeds from sales and maturities of investment securities	<u>1,048,843</u>	<u>1,082,900</u>
Total	<u>\$ 2,197,088</u>	<u>2,212,658</u>
Mortgage Loan Program Fund – Multi-Family Housing Revenue Bonds (Marywood):		
Interest on investments	\$ 65,186	105,549
Proceeds from sales and maturities of investment securities	<u>8,184,822</u>	<u>7,864,442</u>
Total	<u>\$ 8,250,008</u>	<u>7,969,991</u>

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Mortgage Loan Program Fund – Multi-Family Bonds (Turnberry):		
Cash received from:		
Interest from program loans	\$ 267,790	259,180
Service fees from program loans	18,174	—
Principal from program loans	<u>20,595</u>	<u>—</u>
	306,559	259,180
Proceeds from sale of revenue bonds	—	—
Interest on investments	2,017	383
Proceeds from sales and maturities of investment securities	<u>361,911</u>	<u>53,936</u>
Total	<u>\$ 670,487</u>	<u>313,499</u>

See accompanying independent accountants' report.

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Fiscal Schedules and Analysis
Schedule of Changes in State Property
Year ended June 30, 2005

Description	Balance at June 30, 2004	Additions	Depreciation and amortization expense	Retirement	Balance at June 30, 2005
Furniture and equipment	\$ 577,738	—	—	(7,404)	570,334
Accumulated depreciation – furniture and equipment	(477,965)	—	(37,221)	4,628	(510,558)
Computer equipment	570,800	—	—	(71,781)	499,019
Accumulated depreciation – computer	(512,410)	—	(34,243)	70,731	(475,922)
Computer software	2,062,656	109,037	—	(628,073)	1,543,620
Amortized software	(1,625,008)	—	(131,085)	627,689	(1,128,404)
Leasehold improvements	1,805,108	—	—	—	1,805,108
Amortized leasehold improvements	(1,805,108)	—	—	—	(1,805,108)
	<u>\$ 595,811</u>	<u>109,037</u>	<u>(202,549)</u>	<u>(4,210)</u>	<u>498,089</u>

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Year ended June 30, 2005

Furniture, Equipment, and Leasehold Improvements

The Authority leases office facilities under a lease which extends through July 31, 2006, which provides the Authority an option to extend the lease five years beyond that date and, during certain time periods, to lease additional office facilities.

Capital assets of the Authority consist of investments in furniture, fixtures, and equipment, computer hardware, and computer software. For such investments made beginning and after July 1, 2002, capital assets defined by the Authority as assets with an initial, individual cost of \$5,000 or more and are depreciated or amortized on a straight-line basis over a period of five to ten years, depending on the nature of the asset. The limitation amount in prior fiscal years was \$1,000. Purchases of furniture and equipment in the amount of \$3,034 were expensed during fiscal year 2005.

During the year ended June 30, 2005, the Authority capitalized \$0 of fixed asset purchases, \$0 of computer equipment purchases, and \$109,037 of computer software.

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Year ended June 30, 2005

Analysis of Significant Account Balances

Cash and investments of the Authority's proprietary funds increased approximately \$41.5 million from June 30, 2004 to \$771.0 million at June 30, 2005. This increase is primarily a net result of the following factors:

- (a) The fiscal year 2005 reclassification (\$30.2 million) of the Authority's carrying value in a real estate investment from real estate owned.
- (b) Proceeds of bond issuances exceeded payments of bond principal by \$3.1 million.
- (c) Cash receipts from interest, service fees, and principal on program loans exceeded interest paid on revenue bonds and notes and cash payments for operating expenses by \$214.2 million.
- (d) Cash receipts from federal assistance programs exceeded cash payments by \$5.3 million.
- (e) Payments for loan originations totaled \$221.0 million.

Net program loans receivable of the Authority's proprietary funds decreased approximately \$6.8 million during fiscal year 2005. This decrease is attributable to decreases in both the Authority's Mortgage Loan Program (\$67.5 million) and Administrative Funds (\$4.6 million), partially offset by an increase in the Authority's Single Family Program (\$65.3 million) Fund. The decrease in the program loans receivable of the Mortgage Loan Program was due primarily from loan prepayments. The increase in the program loans receivable of the Single Family Program was due to increased loan originations and lower prepayments of existing loans.

Net assets of the Authority's governmental funds increased \$45.3 million from the June 30, 2004 balance to \$404.0 million, primarily due to net program loan receivable increases in the Illinois Affordable Housing Trust Fund (\$15.4 million) and the HOME program (\$12.5 million). Cash and investments increased by \$17.3 million as revenues and repayments of loans exceeded loan and grant payouts, plus administrative expenses.

At June 30, 2005, total outstanding bonds and notes payable was approximately \$3.3 million above the prior fiscal year-end. Issuance of the following bonds and notes (with a balance outstanding at June 30, 2005) occurred during fiscal year 2005:

	Balance June 30, 2005 (In millions)
Housing Bonds 2005 Series A	\$ 32,090,000
Housing Bonds, 2005 Series B	4,810,000
Affordable Housing Program Trust Fund Bonds, Series 2004	44,430,000
Affordable Housing Program Trust Fund Bonds, Series 2005 A	34,480,000
Homeowner Mortgage Revenue Bonds, 2004 Series C	79,415,000
Homeowner Mortgage Revenue Bonds, 2004 Series D	43,405,000
Homeowner Mortgage Revenue Bonds, 2005 Series A	75,000,000
Homeowner Mortgage Revenue Bonds, 2005 Series B	39,805,000
Homeowner Mortgage Revenue Bonds, 2005 Series C	98,760,000

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Year ended June 30, 2005

The Authority redeemed \$228.9 million of various Single Family Program Fund Bonds and \$223.3 million of Mortgage Loan Program Bonds during the fiscal year.

Accretion of capital appreciation bonds and the amortization of bond discount amounted to approximately \$0.3 million.

As of June 30, 2005, the Authority had the following debt outstanding (net of unamortized discount, thereon):

	Number of outstanding issues	Balance June 30, 2005 (In million)
Multi-Family Housing Bond	9	\$ 130.9
Multi-Family Program Bond	5	115.4
Housing Bond	9	196.1
Housing Finance Bond	2	14.4
Multi-Family Variable Rate Demand Bond	1	8.0
Multi-Family Housing Revenue Bond	2	55.0
Multifamily Housing Revenue Bond (Marywood)	1	15.9
Multifamily Bond (Turnberry II)	1	5.3
Affordable Housing Program Trust Fund Bond	3	81.8
Total Mortgage Loan Program Fund	33	622.8
Residential Mortgage Revenue Bond	7	0.3
Homeowner Mortgage Revenue Bond	41	869.9
Total Single Family Program Fund	48	870.2
Total Proprietary Funds	81	\$ 1,493.0

Deposits held in escrow decreased approximately \$8.4 million, due to the refunding of escrows held by developments that prepaid their loans. Capital assets decreased approximately \$0.1 million as depreciation more than offset purchases. Net assets designated by resolution of the Authority (\$76.5 million) were \$10.5 million lower than the amount designated as of June 30, 2004, as the Members of the Authority rescinded the \$10.0 million designation to provide funds to the Authority's Homeowner Mortgage Revenue Bonds General Resolution for the purpose of acquiring single family loans, since that action was taken during fiscal year 2005. In addition, the designation to the Housing Partnership Program decreased \$0.5 million, due to lower amounts outstanding under the program.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Year ended June 30, 2005

Analysis of Significant Variations in Revenue and Significant Variations in Expenses

Interest earned on program loans decreased by \$6.7 million, or 8.5% due to decreases of \$7.0 million within the Authority's Mortgage Loan Program Fund, due to prepayments of mortgage loans and lower interest income on existing loans, as the interest portion of debt service decreased due to the scheduled amortizations of these loans. Interest earned on program loans of the Authority's Single Family Program Fund increased \$0.3 million as the previous years' high prepayment rates declined, and the Authority was able to increase the size of the loan portfolio after several years of declines. Investment income increased \$1.6 million, or 9.8%, and reflected an increase (\$1.8 million) to adjust investments to fair value compared to a decrease (\$2.8 million) to adjust investment to fair value for the prior year. The change in investment income before the adjustments for the market value decline of \$3.0 million was mainly from (1) lower return on investments held within the Mortgage Loan Program Fund; (2) funds from loan prepayments being used to redeem bonds; (3) lower amounts from loan prepayments being received. The increases in investment income were within the Administrative Fund (\$1.4 million) and Mortgage Loan Program Fund (\$0.6 million), partially offset by lower investment income within the Single Family Program Fund (\$0.4 million).

Interest expense decreased \$19.1 million, or 19.5% due to decreased debt outstanding within the Mortgage Loan Program Fund and lower cost debt within the Single Family Program Fund.

Operating expenses, other than interest expense and federal assistance programs, decreased approximately \$397,000. The major components of the change were:

- a. A \$42,000 (.4%) decrease in salaries and benefits primarily due to increased loan origination expense deferrals (\$139,000). Gross salary and benefit expenses (before allocations and deferrals) increased \$32,000 or 0.2%. The average number of full-time equivalent employees for fiscal years 2002 through 2005 is listed in the Analysis of Operations Average Number of Employees section of this report.
- b. A \$609,000 (30.6%) decrease in professional fees primarily due to decreased legal and other contractual expenses. In fiscal year 2004, the Authority incurred one-time expenses for its financial processes re-engineering project, as well as for additional projects related to debt management and computer system installations.
- c. A \$180,000 (5.2%) decrease in general and administrative expenses due primarily to increases in expenses allocated to the Authority's governmental funds.
- d. A \$34,000 (2.2%) increase in financing costs due to increased expenses within the Authority's Mortgage Loan and Single Family Program Funds.

In addition, the Authority increased the allowance for estimated losses on program loan receivables by \$0.4 million for its Mortgage Loan Program Fund. For the prior year, the Authority's allowance for estimated losses on program loan receivables was unchanged.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Year ended June 30, 2005

Total revenues of the Authority's governmental funds increased \$17.1 million from the prior year, mainly from a \$10.4 million increase in real estate transfer taxes, and a \$5.9 million increase in federal program funds, which are used primarily to originate loans. Federal HOME funds are not received until the point at which they are to be disbursed as a loan or a grant, and therefore reflect the timing of disbursements rather than overall program activity. At June 30, 2005, loan and grant commitments authorized by the Members of the Authority for the HOME program totaled \$28.6 million.

Total expenditures of the Authority's governmental funds increased \$8.9 million, primarily from an increase in grants (\$10.5 million) and a \$2.0 million increase in the provision for estimated losses for program loans receivable, partially offset by a reduction in payments to the State of Illinois General Revenue Fund (\$3.6 million).

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Year ended June 30, 2005

Analysis of Administrative Costs

The Authority's administrative costs include the following employee benefits:

Description	2005	2004	2003
Employee holiday reception	\$ 15,280	11,850	8,441
Employee retirement, recognition parties	8,550	3,250	3,928
	<u>\$ 23,830</u>	<u>15,100</u>	<u>12,369</u>

The Authority's current policy allows for amounts to be spent on food and gifts to acknowledge the tenure of individuals, beginning with a minimum of ten years of service.

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Description of Cash Accounts

Year ended June 30, 2005

The Authority's cash and cash equivalents for proprietary funds at June 30, 2005 were maintained in bank accounts, as follows:

Administrative Fund:

JP Morgan	\$ 13,229,493
Amalgamated Trust & Savings Bank	1,899
Bank of New York	28,925
The Northern Trust Company – HUD Section 8 Depository	995
LaSalle Bank	4,477
Lakeside Bank	1,886

Total Administrative Fund	13,267,675
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Multi-Family Housing Bonds:

LaSalle Bank	110,783
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Multi-Family Program Bonds:

Amalgamated Trust & Savings Bank	20,184
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Housing Bonds:

LaSalle Bank	657,055
JP Morgan	112,458

Multi-Family Variable Rate Demand Bonds:

JP Morgan	340,153
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Multi-Family Housing Revenue Bonds:

JP Morgan	205,526
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Multi-Family Housing Revenue Bonds (Marywood):

JP Morgan	2,788
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Multifamily Bonds (Turnberry):

LaSalle Bank	11
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Affordable Housing Program Trust Fund Bonds

LaSalle Bank	653,106
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Total Mortgage Loan Program Fund	2,102,064
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Homeowner Mortgage Revenue Bonds:

JP Morgan	698,768
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Residential Mortgage Revenue Bonds:

JP Morgan	314
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Total Single Family Program Fund	699,082
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Total proprietary funds	\$ 16,068,821
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See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Year ended June 30, 2005

Description of Investments

The carrying value of investments, for the Authority's governmental and proprietary funds, at June 30, 2005 are delineated by type, as follows:

<u>Type</u>	<u>Carrying value</u>
Demand Repurchase Agreements	\$ 152,299,976
United States Agency Obligations	561,493,016
United States Government Obligations	47,713,263
Municipal Obligations and Other	<u>2,115,140</u>
	<u>\$ 763,621,395</u>

In addition to the investments shown above, the Authority's investments also include the net carrying value of Lakeshore Plaza (ML-181) totaling \$30,237,415 at June 30, 2005. The Authority acquired the real estate by deed in lieu of foreclosure on April 27, 1990.

Affordable Housing Trust Fund

The Authority is designated the administrator of the Illinois Affordable Housing Program. The program is funded by the Illinois Affordable Housing Trust Fund with funds generated from the state real estate transfer tax collected by the Illinois Department of Revenue and held within the State Treasury. At June 30, 2005, total funds held were \$87,517,744 which included \$48,008,527 of funds held by State Treasury and \$39,509,217 of cash and investments held by escrow agents for pending disbursement of loans and grants.

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Analysis of Operations

Year ended June 30, 2005

Authority Functions and Planning Program

The Authority is governed by a bipartisan Board of nine members appointed by the Governor and confirmed by the State Senate. Ms. Kelly King Dibble is the Executive Director of the Authority. In addition, the Authority employs a staff of approximately 200 persons, including persons who have experience and responsibilities in the areas of finance, accounting, mortgage loan underwriting, housing development, market analysis, law, and housing marketing and management.

The statutory mandate of the Authority is to increase the production and supply of low and moderate income housing within the State of Illinois. This goal is currently accomplished through several programs. *The Mortgage Loan Program and The Affordable Housing Bond Program* (initiated in fiscal year 1995) provides mortgage financing at rates lower than those available from commercial lenders for housing developments meeting Authority criteria. Through *The Homeowner Mortgage Purchase Program*, the Authority purchases mortgage loans on which it provides below market rate financing from certain institutions which have made home purchase loans available to eligible borrowers. The Authority also provides technical and marketing assistance to sponsors of housing for occupancy by persons or families of low to moderate income, serves as the state administrator for Federal Low Income Housing Tax Credits (primarily outside of Chicago) and, through its Partnership and Financial Assistance Factor (FAF) Earnings Programs, makes loans from its Administrative Funds at below market rates to such groups.

The Authority also is designated the administrator of the *Illinois Affordable Housing Program*. The program is funded by the Illinois Affordable Housing Trust Fund, with funds derived from a portion of the state real estate transfer tax collected by the Illinois Department of Revenue and held within the State Treasury. The funds are appropriated to the Illinois Department of Revenue by the General Assembly. In accordance with state statute, the Authority directs funds to make grants, low or no interest mortgages, or other loans, some with deferred repayment terms, to acquire, construct, rehabilitate, develop, operate, ensure, and retain affordable single-family and multi-family housing for low and very low income households.

In addition, the Authority has been designated as the statewide administrator of the Federal HOME program. Under this program, \$279.2 million and \$24.1 million for federal fiscal years 1992 through 2004 and 2005, respectively, have been allocated to be administered by the Authority under the HOME provisions of the 1990 National Affordable Housing Act.

A federal tax credit program created by the Tax Reform Act of 1986, the Low Income Housing Tax Credit Program, was designed to encourage the production of affordable housing, providing an income tax credit to qualifying investors of low-income housing. Project developers typically syndicate these credits up front at a discounted rate to raise cash equity to help finance developments. The limited partner tax credit investor pays a fee in exchange for dollar-for-dollar reduction in federal tax liability. The Authority is the State-level Tax Credit administrator, and the City of Chicago serves in the same capacity as a local tax credit administrator for its allowed home rule proportional allotment of credits.

In fiscal year 1992, the Authority formed the Office of Housing Coordination Services, which coordinates housing policy development and housing programs, initiates and responds to public input on housing programs, and acts as a housing information resource for nonprofit organizations, local governments, state agencies, and others.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Analysis of Operations

Year ended June 30, 2005

In early fiscal year 2002 the Illinois General Assembly created the Illinois Affordable Housing Tax Credit Program, which was designed to assist nonprofit organizations to solicit corporate and other donations for assisting with a variety of affordable housing projects, providing the donating entity with a 50% state income tax credit for every dollar donated. The Authority is the administrator of this program, which began during fiscal year 2002.

The Authority also serves as the Chair of the State's Housing Task Force. During fiscal year 2004 the Authority worked to create the first statewide housing plan in Illinois history. The plan, entitled Building for Success: Illinois' Housing Plan, was submitted to the Illinois legislature in January 2005, and will guide the work of the Authority and all the State agencies that rely on housing to serve their populations for years to come.

The Authority's operations are financed by fees and charges paid by borrowers, interest income from investment securities, and other administration fees. No State appropriations are received by the Authority and no State tax dollars are provided directly to the Authority, except as a partial reimbursement of expenses related to the administration of the Affordable Housing Trust Fund.

The Authority is generally able to make loans at rates lower than those of commercial lenders because interest on its qualified bonds and notes are tax-exempt. Except for the Affordable Housing Bond Program, which receives funds to use in support of the Program Bonds, the interest rates charged by the Authority on loans are directly related to interest paid by the Authority on its bonds and notes. The Authority obtains favorable interest rates on its debt because the Authority has consistently received high Moody's and Standard & Poor's ratings on such debt. During fiscal year 2005, the Authority's Issuer Credit Ratings remained at A+/A1/A+ by Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, respectively. No bonds or notes of the Authority are debts of the State of Illinois. With respect to certain outstanding debt, in the event the Authority determines at any time that its moneys are insufficient to pay principal of and interest on its bonds in the next State fiscal period, the Chairman of the Authority shall certify the deficiency to the Governor, who shall include the amount in the State budget. However, payment of any amounts by the State on behalf of the Authority is subject to appropriation by the General Assembly. Accordingly, the Illinois Housing Development Act does not create a legally enforceable obligation on the part of the State for the payment of such moneys nor does it create a debt enforceable against the State.

Some developments financed by the Authority are eligible for the federal subsidies for interest and/or rents. In the past, the Authority obtained commitments for subsidies from the U.S. Department of Housing and Urban Development (HUD) and then solicited applications for loans from prospective developers. The Authority makes mortgage loan commitments after an extensive study of the feasibility of a development and the development's compliance with applicable federal, state, and local laws and rules and regulations. All commitments are authorized by the Members of the Authority.

New Program Development

In December, 1983, the United States Congress officially terminated new production of housing under the Section 8 Housing Payments Program. With the elimination of these subsidies, the Authority's ability to provide mortgage financing rates at lower than those of commercial lenders was reduced. The elimination of federal subsidies has also driven up interest rates on multi-family housing bonds, which do not provide financial security similar to that afforded by the Section 8 program. The advantage of providing lower financing rates was further restricted by the Tax Reform Act of 1986, which included provisions for statewide limits on bond issuance. It has

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Analysis of Operations

Year ended June 30, 2005

therefore become necessary to devise other types of credit enhancements, such as insurance or other surety protection, to ensure that the Authority is able to issue its bonds and notes at the lowest possible interest rates.

In June 1994, the Authority entered into a Risk Sharing Agreement (Agreement) with HUD, which permits the Authority to participate in HUD's Pilot Risk Sharing Program, which has since been converted to a permanent program. Under this program, HUD will insure certain mortgage loans on multi-family housing developments (Risk Sharing Loans). HUD has authorized the Authority to make an unlimited amount of loans for such developments. Under the Agreement, the Authority underwrites Risk Sharing Loans following its underwriting guidelines. HUD insures the Risk Sharing Loans and bears 10% to 90% of the loss, as elected by the Authority, in the event of a foreclosure. The Authority bears the remainder of the risk.

The Authority has entered into twenty-eight Risk Sharing Loans totaling \$144,172,148 and elected that HUD assume 10% to 50% of the loss. Except for three loans totaling \$16,591,000 which were financed through the issuance of the Authority's Housing Finance Bonds, one loan in the amount of \$15,460,000 which was financed through the issuance of the Authority's Multi-Family Housing Revenue Bonds (Marywood), and two loans totaling \$10,993,148 which were financed through the issuance of the Authority's Multi-Family Housing Bonds, these loans are not included in the Authority's financial statements as the Authority sold 100% participation interests to outside parties. The program's service and insurance fee incomes are recorded in the Administrative and Other Funds of the Authority.

In December 2000, the Authority received a commitment from Ambac Assurance Corporation (Ambac) under which Ambac will insure mortgage loans (Ambac Loans) on multi-family housing developments under the Authority's Mortgage Participation Certificate Program. Ambac has guaranteed repayment of principal and interest due on a timely or accelerated basis in accordance with the agreement between the Authority and Ambac. Once Ambac Loans are issued and minimum threshold requirements are met, Ambac and the Authority will enter into a sharing agreement on the remaining principal balance on each mortgage loan. As of June 30, 2005, the Authority has entered into twelve Ambac Loans totaling \$130,751,000.

Planning Program

The Authority's planning program is designed to identify and accept those developments that best achieve the Authority's goals of providing low and moderate economically integrated housing throughout the State while maintaining the financial viability of the Authority.

The Authority utilizes internal planning primarily through the development of a strategic plan and its annual budgeting process, in which Authority goals for the ensuing fiscal year are established and departmental goals and expense budgets are developed in support of the established Authority goals. In developing the goals and the departmental support level to achieve them, consideration is given to the availability of staff and other resources. To effectively measure achievement of the goals and objectives, the Authority monitors on an ongoing basis the units of housing produced through its programs. The Authority's plans are geared to its authorizing legislation and the needs of Illinois citizens. The Authority's programs are being implemented as planned in coordination with the goals and objectives of other governmental entities providing similar services.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Analysis of Operations

Year ended June 30, 2005

Auditor's Assessment of Authority's Planning Program

The information above constitutes Authority representations. The Authority has developed an adequate and comprehensive planning program to meet its objectives. Management's continuous monitoring of Authority programs and evaluation of available resources appears to be effective in achieving and updating its objectives.

Average Number of Employees (Unaudited)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Financial and computer services	\$ 47	50	46	44
Human resources, administration, and legal	26	27	28	27
Director's office and housing programs	<u>120</u>	<u>121</u>	<u>121</u>	<u>119</u>
Total	\$ <u>193</u>	<u>198</u>	<u>195</u>	<u>190</u>

The average number of full-time employees decreased to 193 in fiscal year 2005 from 198 in fiscal year 2004. The decrease primarily reflects staffing decreases in departments primarily engaged in accounting and financial services.

Illinois FIRST Program (Unaudited)

The program received no funds as part of the Illinois FIRST Program during the fiscal years ended June 30, 2005 and 2004. Funds previously received are being used to fund an accessibility demonstration grant program.

Emergency Purchases

The Authority had no emergency purchases during the year ended June 30, 2005.

Service Efforts and Accomplishments (Unaudited)

The Authority has included key statistical and programmatic data to reflect its service efforts and accomplishments and activity measures.

This data, represented in the following three schedules, represent initially closed multifamily loans, purchased single family Mortgage Revenue Bond (MRB) loans, issued Mortgage Credit Certificates (MCC), and low income housing credit units which have been placed in service. The multifamily data includes projects that received permanent, construction, or conduit financing, as well as projects where the Authority provides only contract administration. Numbers are not reduced as projects leave the Authority's portfolio.

This data does not include multifamily or single family loans that are currently "in process" or multifamily developments recently allocated in the case of Tax Credits.

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Analysis of Operations

Service Efforts and Accomplishments

Production/Preservation Activity in Terms of Housing Units (1)

Year ended June 30, 2005

(Unaudited)

Fiscal year	Multi-Family		Single Family		Community Development (2)		HOME (2)	Totals
	Loan Program (3)	Housing Credits (4)	Mortgage Loan Programs	Mortgage Credit Certificates	Partnerships/ FAF	Trust Fund/ Trust Fund Bond	Investment Program	Housing Units
'70 thru '79	19,951	—	—	—	—	—	—	19,951
'80 thru '89	15,347	2,543	15,463	665	3,637	—	—	37,655
'90 thru '99	5,479	22,217	19,364	2,349	3,477	21,060	4,593	78,539
2000	768	2,528	3,388	331	345	2,459	751	10,570
2001	1,029	1,353	1,557	158	19	3,733	614	8,463
2002	1,367	3,207	1,457	45	165	3,836	786	10,863
2003	1,051	1,754	1,185	45	1,089	3,669	795	9,588
2004	3,190	212	1,327	113	179	2,967	734	8,722
2005	1,479	—	1,648	310	60	2,885	856	7,238
Totals	49,661	33,814	45,389	4,016	8,971	40,609	9,129	191,589

- (1) Represents total units within each development.
(2) Includes both single family and multifamily units financed through these programs.
(3) Includes 4,250 units for which IHDA provides only Sec. 8 contract administration.
(4) Represents placed in service (PIS) units only. Certain prior year figures were adjusted to reflect units placed into service for which the Authority was first notified in fiscal year 2005.

See accompanying independent accountants' report.

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Analysis of Operations

Service Efforts and Accomplishments

Production of Low Income Units by Program

Year ended June 30, 2005

(Unaudited)

Program	Total number of units	Low income units (1)	
		Number	Percentage
Multi-Family	49,661	35,328	71.1%
Tax credits	33,814	31,750	93.9
Partnership/FAF	8,971	8,712	97.1
Trust Fund/Trust Fund Bond	40,609	39,009	96.1
HOME	9,129	8,948	98.0
Single Family-Mortgage Revenue Bond (2)	45,389	41,177	90.7
Single Family-Mortgage Credit Certificates	4,016	3,316	82.6
Sub-total	191,589	168,240	87.8
Units participating in multiple programs	(28,818)	(23,066)	80.0
Totals	162,771	145,174	89.2%

- (1) Low-income is defined as units which are either occupied by or designated for families whose annual income is below 80% of the applicable median income by program.
- (2) Low-income borrowers are determined by comparing a household's annual income, at the time of the loan purchase, to 80% of the then-current statewide median income, as published by HUD.

See accompanying independent accountants' report.

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Analysis of Operations
Service Efforts and Accomplishments
Production/Preservation Activity by Region
Year ended June 30, 2005
(Unaudited)

Region (1)	FY 1970-1989		FY 1990-1999		FY 2000-2005			Totals (unduplicated) (2)			Total Developments
	Multi-Family	Single Family	Multi-Family	Single Family	Multi-Family	TA	Single Family	Multi-Family	TA	Single Family	
Central	1,673	1,367	1,632	1,240	961	—	1,190	4,054	—	3,797	7,851
East Central	1,183	620	800	1,226	1,181	—	559	2,967	—	2,405	5,372
North Central	1,730	861	2,382	1,923	921	—	1,978	5,033	—	4,762	9,795
Northeast	30,643	9,611	24,190	14,078	15,940	—	7,406	67,136	—	31,095	98,231
Northern Stateline	1,241	953	1,027	1,500	259	—	881	2,527	—	3,334	5,861
Northwest	940	762	1,997	1,898	1,653	—	1,498	4,279	—	4,158	8,437
Southeastern	529	143	506	963	588	—	707	1,623	—	1,813	3,436
Southern	496	179	969	3,602	801	10	1,602	2,120	10	5,383	7,513
Southwestern	1,069	1,742	569	2,443	1,285	—	1,456	2,923	—	5,641	8,564
West Central	621	362	531	875	882	—	1,189	1,834	—	2,426	4,260
Statewide	200	—	—	1,158	—	500	1,593	200	500	2,751	3,451
Total	40,325	16,600	34,603	30,906	24,471	510	20,059	94,696	510	67,565	162,771

- (1) Counties included in each region are as follows:
 Central – Cass, Christian, Greene, Logan, Macon, Menard, Montgomery, Morgan, Moultrie, Sangamon, Scott, and Shelby (Metro areas Decatur and Springfield)
 East Central – Champaign, Douglas, Ford, Iroquois, Platt and Vermilion (Metro area Champaign)
 North Central – Dewitt, Fulton, Livingston, Marshall, Mason, McLean, Peoria, Seak, Tazewell and Woodford (Metro areas Bloomington Normal and Peoria)
 Northeast – Cook, DeKalb, DuPage, Grundy, Kane, Kankakee, Kendall, Lake, McHenry, and Will (Metro areas Chicago, DeKalb, and Kankakee)
 Northern Stateline – Boone, Ogle, Stephenson, and Winnebago (Metro area Rockford)
 Northwest – Bureau, Carroll, Henry, Jo Daviess, La Salle, Lee, Mercer, Rock Island, Putnam and Whiteside (Metro area Rock Island)
 Southeastern – Clark, Clay, Coles, Crawford, Cumberland, Edgar, Effingham, Fayette, Jasper, Lawrence, Marion and Richland
 Southern – Alexander, Edwards, Franklin, Gallatin, Hamilton, Hardin, Jackson, Jefferson, Johnson, Massac, Perry, Pope, Pulaski, Saline Union, Wabash, Wayne, White and Williamso
 Southwestern – Bond, Calhoun, Clinton, Jersey, Madison, Macoupin, Monroe, Randolph, St. Clair, and Washington (Metro area East St. Louis)
 West Central – Adams, Brown, Hancock, Henderson, Knox, McDonough, Pike, Schuyler and Warrar
- (2) Because original financing and subsequent refinancing of multifamily developments typically occurs in different fiscal years, the individual fiscal year columns report double counting; that is, a development may appear in two columns.

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Analysis of Operations
Year ended June 30, 2005

Summary Production Data (Unaudited)

In fiscal year 2005 the Authority allocated \$365 million for 5,857 of rental housing in Illinois including 1,896 homes for the elderly and 3,720 homes for families.

In fiscal year 2005 the Authority issued \$201 million in loans and tax credits to help nearly 2,000 working families purchase their first home, \$9.6 million in loans and grants for down payment and closing cost assistance to 925 low-income families, and \$12.6 million in renovation loans and grants to 886 low-income families.

The Authority during fiscal year 2005 led the creation of the State's Comprehensive Housing Plan 2006, which identified \$690 million of current government spending at six different agencies earmarked for housing.

See accompanying independent accountants' report.

**STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Analysis of Operations

Year ended June 30, 2005 and 2004

Schedule of Federal and Nonfederal Expenditures

Year ended June 30, 2005	Amounts	Percent
	(In thousands)	
Federal expenditures (Note)	\$ 182,962	60%
Nonfederal expenditures	119,985	40
Total expenditures	\$ 302,947	100%
<hr/>		
Year ended June 30, 2004		
Federal expenditures (Note)	\$ 178,848	57%
Nonfederal expenditures	135,612	43
Total expenditures	\$ 314,460	100%

Note: Federal expenditures represent “federal expenditures” as presented in the respective schedules of expenditures of federal awards for the years ended June 30, 2005 and 2004.

See accompanying independent accountants’ report.